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7 Sept 62

CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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THE WEEK IN BRIEF
(Information as of 1200 EDT 6 Sept)

SOVIET FOREIGN POLICY DEVELOPMENTS Page 1

Berlin: Moscow's failure to make an issue of the entry point for its war memorial guards suggests that it wished to avoid a test of Soviet access rights into West Berlin prior to probable East German moves in the near future to bar Allied military entry into East Berlin. Soviet authorities are attempting to equate the USSR's right of access to West Berlin with Allied access rights to the city.

UN tactics: Moscow's exploitation of the 30 August U-2 incident in the Far East indicates that the Russians may add this highly charged issue to a broader attack on US "provocations" in Berlin, Cuba, and Asia at the forthcoming General Assembly session. There were further signs that Khrushchev may present the Soviet case personally.

Geneva talks: Although the Soviet delegate continued to denounce the US and British draft test ban treaties, he agreed to continue three-power test ban negotiations while the disarmament conference is in recess until mid-November.

Cuba: The USSR used a joint communiqué following talks with two Cuban leaders to affirm its "right" to provide Cuba with military equipment and technicians.

Finland: After six years of sporadic negotiations, the USSR has leased the Saimaa Canal, part of which runs through Soviet territory, to Finland for 50 years.

IMPROVING SOVIET FIGHTER DEFENSES IN EAST GERMANY Page 4

The all-weather fighter intercept capability of the Soviet tactical air army in East Germany has been improved this summer by the introduction of a number of modified Fishbed (MIG-21) aircraft

The recent deliveries are part of a general program of improving Soviet bloc fighter defenses which has been under way since at least early 1960, and do not appear to be in reaction to heightened tension over Berlin.

SOVIET CIVIL DEFENSE SHELTER POLICY Page 5

The Soviet Union apparently has decided that it can carry on a useful civil defense program without building massive deep-level bomb shelters. Present policy calls for use of shelters already built, but stresses partial urban evacuation, preparation of homemade fallout shelters, and improvization of protection in caves, underpasses, interior rooms of large buildings, and cellars.

LAOS Page 7

There have been no announced withdrawals of North Vietnamese personnel since the evacuation of 15 "technicians and advisers" on 27 August. While significant numbers of North Vietnamese appear to have been covertly withdrawn

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from Laos during the past month, substantial elements probably remain, either in separate units or as part of Pathet Lao units.

The coalition government on 4 September approved the establishment of diplomatic relations with a number of Communist countries, including China, East Germany, and North Vietnam.

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ALGERIA Page 9

The re-establishment of the political bureau in Algiers is a significant victory for Ben Bella. Since Wilaya IV troops no longer control the city, the political bureau should be able to operate more effectively than before, and if Ben Bella quickly restores order he will have the solid support of most of the population. He may have to make further compromises with powerful opponents such as Belkacem Krim and Mohamed Boudiaf, however, and the basic question of the political role of the army remains unresolved.

CONGO Page 11

Tshombé on 3 September said the UN-sponsored plan provided "the basis" for a settlement, but he obviously hopes to get the UN and Leopoldville bogged down in further negotiations on the specifics. The UN, nevertheless, proceeding as though Tshombé had in fact accepted the plan, is urging rapid implementation. Leopoldville's attempts to establish a separate northern Katanga province may become a major issue between Adoula and Tshombé, and sporadic fighting between Congolese and Katangan forces continues there. Pressure for the release of Gizenga is still rising in Leopoldville.

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PORTUGAL'S RELATIONS WITH THE CONGO Page 13

Portuguese officials are increasingly concerned about Leopoldville's extension of aid to Angolan rebels in the Congo. Lisbon is considering economic sanctions against the Congolese. Military action cannot be ruled out, particularly if the Salazar regime should become convinced of the necessity of a military "victory" to stifle domestic discontent over the mounting costs of the Angola campaign.

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DEVELOPMENTS IN DENMARK Page 15

Jens Otto Krag, who replaced the ailing Viggo Kampmann as Denmark's prime minister on 3 September, will make no marked changes in foreign and defense policies. He faces increasing difficulties on the domestic front, however. Factionalism within his own Social Democratic party is growing, and the popularity of the coalition government has declined. Such impending matters as the farm price problem and national labor negotiations will place further strains on the government and may lead to a reorganization.

COMMONWEALTH PRIME MINISTERS CONFERENCE Page 16

The Commonwealth prime ministers' conference opening in London on 10 September will be dominated by the question of British membership in the European Common Market. Although the meeting will be purely consultative, attitudes expressed there on this issue will influence political opinion in Britain.

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PRE-ELECTORAL TENSIONS IN NICARAGUA Page 20

Nicaragua's preparations for presidential and congressional elections next February are already increasing the bitter rivalry between the two major parties. There is a

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strong possibility of violence before or immediately after the elections which Communist and pro-Castro elements could exploit. Small bands of Communist-led guerrillas--some recently trained in Cuba--may already be gathering in remote areas. [redacted]

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BRAZILIANS EXPECT MID-SEPTEMBER CRISIS Page 21

Political tensions in Brazil may come to a head between 10 and 15 September, when Congress is scheduled to consider President Goulart's demand for a plebiscite on restoration of a strong presidency. On 3 September moderate Finance Minister Walter Moreira Salles resigned, publicly criticizing the government's financial policies. Leading pro-Communist Leonel Brizola and anti-Communist Carlos Lacerda, state governors, are making violent speeches which are causing widespread reaction. With campaigning under way for congressional elections on 7 October, there is considerable doubt that a quorum can be assembled at Brasilia.

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SPECIAL ARTICLES

CHINESE REPRESENTATION IN THE UNITED NATIONS Page 1

Nationalist China is making a determined effort to maintain the edge it gained in the UN General Assembly last year when the Soviet proposal to oust Taipei and admit Peiping was decisively defeated. The continuing support of the African states, particularly the Brazzaville group, is essential for Taipei's success at the session opening 18 September. [redacted]

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[redacted] The USSR is expected to resume its efforts toward Peiping's admission. This year, however, the Soviets may concentrate on the tactic of seeking rejection of the Taipei delegation's credentials. This would be a procedural question needing only a majority vote for approval, whereas the ouster of Nationalist China and admission of Peiping would be an "important question" and would require a two-thirds vote to pass. [redacted]

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INDIA'S ECONOMY UNDER THE THIRD FIVE-YEAR PLAN Page 4

During the first 18 months of India's \$25 billion Third Five-Year Plan the economy has not measured up to the goals set, although its performance has been good even by Western standards. Administrative remedies are being applied to break bottlenecks, boost production, and conserve fast-dwindling foreign exchange reserves. Major reductions in plan targets appear unavoidable. [redacted]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****WEEKLY REVIEW****SOVIET FOREIGN POLICY DEVELOPMENTS**

The USSR marked time last week on further major steps in the Berlin situation. Soviet military authorities in East Germany complied with the Western commandants' instructions that Soviet vehicles transporting guards to and from the Soviet war memorial in West Berlin should use either the Brandenburg Gate or Sandkrug Bridge entry points in the British sector, rather than Friedrichstrasse in the US sector. Soviet compliance involved an implicit disregard of East German decrees designating Friedrichstrasse as the only crossing point for foreigners, including personnel of the four powers in both parts of Berlin.

The Soviet decision not to make an issue of this point was probably prompted by Moscow's desire to maintain its presence in West Berlin, at least for the time being, and to avoid any test of Soviet access rights to West Berlin prior to probable East German moves in the near future to bar Allied military entry into East Berlin.

The strongly worded Soviet note of 5 September, which rejected Western proposals of 24 and 27 August for four-power talks to ease Berlin tensions, apparently was designed to provide justification for East German measures to incorporate East Berlin in the GDR and to impose new restrictions on Allied entry into East Berlin. The note catalogued a variety of alleged Western aggressive

acts in West Berlin and repeated Moscow's demand for ending the occupation regime, liquidating the "NATO military base," and withdrawing Western troops from West Berlin.

Soviet leaders undoubtedly recognize that East German measures to close East Berlin to Allied traffic will almost certainly produce Western retaliatory steps to exclude the USSR from West Berlin. In an effort to deter such Western reprisals, Soviet military authorities in East Germany are continuing vigorous efforts to equate the USSR's right of access to West Berlin with Allied access rights to the city.

If the Western powers, however, proceed with action to exclude the USSR from West Berlin in response to East German moves to bloc Allied entry into East Berlin, Soviet retaliatory measures may include associating the East Germans with Soviet control procedures at autobahn checkpoints. This would be consistent with present Soviet tactics directed at achieving the main objectives of the separate peace treaty by gradual unilateral actions.

Soviet Plans for UN Assembly

Moscow is exploiting the incident involving a U-2 aircraft which the US acknowledged may have unintentionally violated Soviet air space in the Far East

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on 30 August. Although Moscow could have confined its reaction to a private, oral protest, it chose to send a harshly worded note which recalled US "perfidy" in the U-2 incident of May 1960 and emphasized that previous Soviet warnings of "retaliatory measures" against U-2 bases in foreign countries "remain fully in force."

The USSR reserved the right to raise the question of "US aggressive actions" at the UN General Assembly. The Soviet leaders presumably believe that by adding the highly charged U-2 issue to a broader attack on US "provocations" in Berlin, Cuba, and the Far East, they will place the US on the defensive in UN debate. They would hope thereby to generate strong pressures among smaller UN members for a more forthcoming Western attitude on negotiations with the USSR, particularly on Berlin.

Geneva Disarmament Talks

The Soviet delegate in Geneva has continued his efforts to discredit the two draft treaties for banning nuclear tests submitted by the US and Britain. He stressed that they are not based on the "compromise" proposal offered by the eight non-aligned powers at Geneva last April. He contended that the USSR is ready to meet the US and Britain half way and conclude a treaty banning tests in the atmosphere, outer space, and under water, with a moratorium on underground tests while negotiations proceed on the latter problem. He rejected the Western drafts as a basis for further talks, arguing that the Western position had not changed since the proposals of April 1961.

The Soviet delegate agreed on 5 September to continue three-power test ban talks while the formal disarmament conference is in recess for the UN General Assembly.

Cuba

In contrast with Soviet pronouncements last week which stressed the nonmilitary nature of Soviet shipments to Cuba, the 2 September communiqué issued at the end of the Moscow visit by ranking Cuban leaders Che Guevara and Emilio Aragones vigorously affirmed the USSR's "right" to provide Cuba with military equipment and technicians to help counter threats from "aggressive imperialist quarters." The communiqué stated that the USSR, in response to Cuban requests for assistance, agreed that "as long as threats from the aforementioned quarters continue, the Cuban republic has every right to adopt measures to guarantee its security...and all sincere friends of Cuba will have full right to accede to these legitimate demands."

The statement also referred to Soviet commitments to support the long-term economic development of Cuba by assisting in the establishment of iron and steel industries and by continuing technical assistance in agriculture, irrigation, hydroelectric power, and other fields. The communiqué reflected both Cuban pressure for renewed public support and Moscow's desire to respond to the publicity the US has been giving the influx of Soviet military equipment and personnel into Cuba since late July.

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Soviet propaganda continues to charge that the US is preparing another invasion attempt and to hint that the USSR will raise the issue of "dangerous US machinations in the Caribbean" at the UN. Moscow has also ridiculed speculation in the West that the USSR is sending military forces to Cuba and setting up military bases. A broadcast on 1 September said there is only one military base in Cuba--Guantanamo--and alleged that US efforts to "invent" the presence of Soviet bases and demands for invoking the "defunct" Monroe Doctrine are aimed at providing a pretext for "crushing revolutionary Cuba."

Moscow radio called on the US to abandon its "adventurous policy" and to model its relations with Cuba on the USSR's policy of peaceful coexistence with such neighbors as Iran and Turkey, which not only receive US military aid but belong to US-led military alliances and have US military bases on their territories. Moscow pointedly noted that Cuba is not a member of the Warsaw Pact and that there are no Soviet bases on its territory.

Soviet-Finnish Relations

The recent Soviet-Finnish agreement on the leasing of the Saimaa Canal to Finland for 50 years marks the end of over six years of sporadic bargaining. The canal, which connects the Finnish inland lake system with the Gulf of Finland and the Baltic Sea, runs partly through territory which the USSR annexed during World War II. According to the terms of the agreement, Finland must pay the cost of modernizing the canal--a task which the Finnish press concludes will not be completed before 1966

at the earliest. All Finnish ships, except warships, will be entitled to use the canal, as will merchant ships of other countries. The USSR, however, reserved the right to deny passage "in exceptional circumstances" to all third-party ships through the Soviet section of the canal.

Moscow probably believes this agreement will both strengthen President Kekkonen's leadership in Finland and advance Soviet interests in acquiring a stronger voice in Finnish foreign policy decisions. Kekkonen, for his part, probably considers the agreement further proof of his unique ability to conduct relations with the USSR in such a way as to retain Soviet confidence without jeopardizing Finland's independence.

Although the decision has not excited the Finnish public, in large part because of the doubtful economic feasibility of the project, a leading newspaper of Kekkonen's Agrarian party has lauded the "historical document" and exhorted all Finns to remember that it marked the first time since World War II that a great power has surrendered an area to a defeated nation." The Saimaa Canal project is largely an Agrarian party political enterprise and continues to arouse considerable political appeal among voters in southeast and east-central Finland despite its economic shortcomings. In addition, many displaced Karelians who lost part of their homeland to the USSR in 1944 have nurtured the hope that any settlement of the Saimaa Canal issue might provide an opening wedge for eventual recovery of this area west of the canal.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****IMPROVING SOVIET FIGHTER DEFENSES IN EAST GERMANY**

The all-weather fighter intercept capability of the Soviet tactical air army in East Germany has been improved this summer by the introduction of a number of modified Fishbed (MIG-21) aircraft.

These new aircraft have

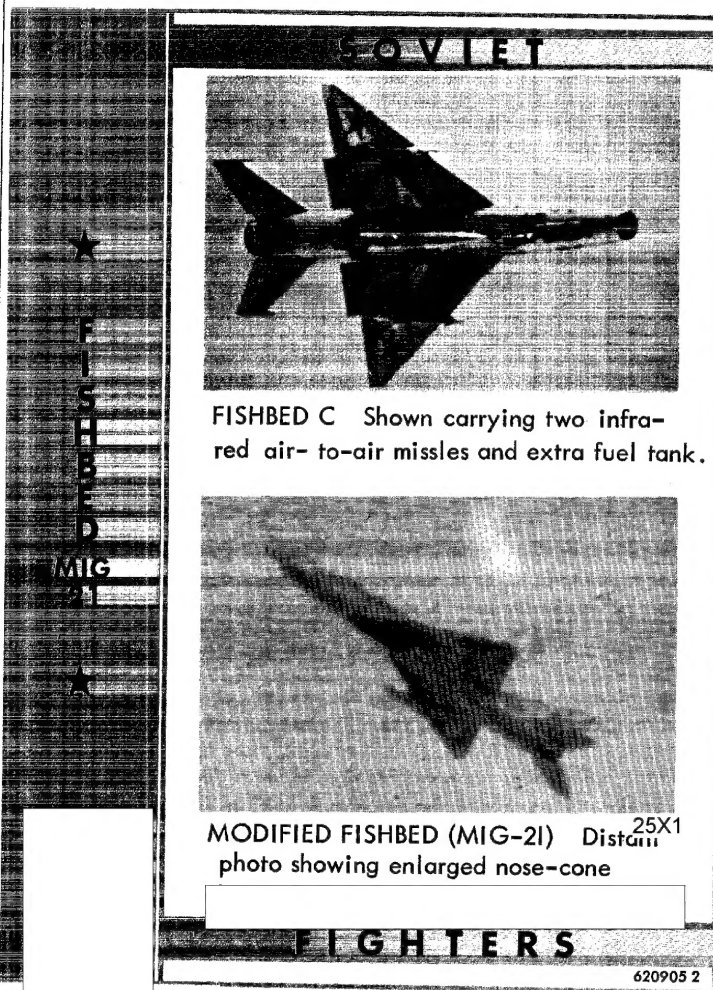
probably better equipment, and possibly better performance than the Mach 2 Fishbed-C ground-attack fighters previously assigned to Soviet tactical units in East Germany. The older Fishbeds have "range only" radar which limits air intercepts to conditions of good visibility. Until the new MIG-21s arrived, the only fighters in East Germany possessing any all-weather intercept capability had been a few variants of the aging Fresco (MIG-17), some Farmers (MIG-19s), and the subsonic flashlight (YAK-25).

The recent deliveries do not appear to be caused by heightened tension over Berlin but rather are to strengthen the air defense capability of the Soviet tactical air forces in East Germany. A general program of improving fighter defenses has been under way since at least early 1960 and has included the introduction of sizable numbers of newer type fighter aircraft throughout the Soviet bloc. Delivery of the improved MIGs to Soviet units in East Germany has resulted in the transfer of some of their approximately 100 Fishbed-Cs to the East German Air Force. Continuing

deployment of the modified MIG-21s is expected to permit more such transfers.

At the Moscow air show in July 1961, the Soviets had displayed a MIG-21 with a larger nose-cone than those noted on the Fishbed-Cs being assigned

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to operational units at that time. Sightings of these aircraft in East Germany were first reported on 5 June 1962.

Other new aircraft delivered to Soviet units in East Germany during the past year have included a number of Fitter aircraft, believed intended for ground attack roles, and the Firebar A, which is probably a tactical fighter/bomber.

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SOVIET CIVIL DEFENSE SHELTER POLICY

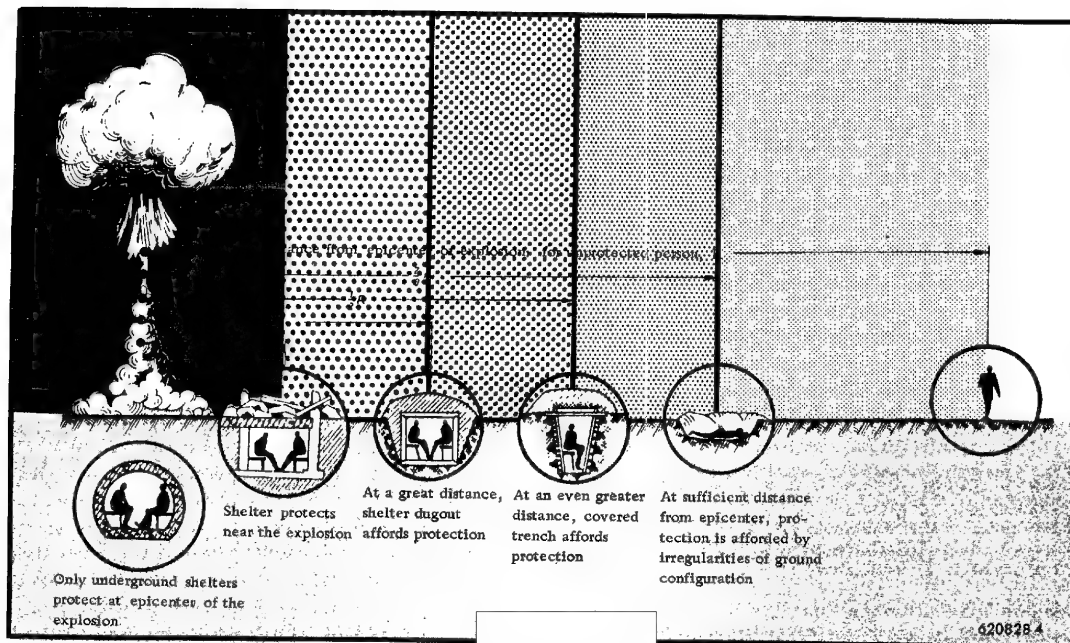
A debate on Soviet civil defense shelter policy apparently has been resolved in favor of a continued civil defense effort using a variety of protective measures. These would include partial urban evacuation, use of existing bomb shelters, preparation of homemade fallout shelters, and improvization of protection in caves, underpasses, interior rooms of large buildings, and cellars.

The crux of the debate since then has been whether a civil defense program without heavy blast shelters would provide useful protection under conditions of atomic attack. Two articles early this year in the journal of the Soviet paramilitary society, DOSAAF, are representative of the viewpoint which seems to have been adopted. One, by Colonel General O. V. Tolstikov, a civil defense official, stated: "The appearance of new superpowerful types of weapons of mass destruction have produced erroneous views among

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Variety of shelters as illustrated in Soviet Civil Defense Handbook

certain comrades...who have assumed that protective measures include only the construction of shelters and have ignored other ways and means of defense." This viewpoint was seconded by a lieutenant general of the Engineering Troops, who wrote that those who think only of shelters built deep underground are incompetent and in error.

The well-publicized fifth DOSAAF congress held in May also endorsed a continuing and improved civil defense program utilizing a mixture of protective measures; it appeared to signal the end to most of the controversy. Any doubts as to the validity of a civil defense

effort were probably dispelled by Marshal V. I. Chuikov's statement at the congress: "Civil defense now must be considered one of the basic elements in over-all preparations of the country for defense."

The present concept of protection avoids the lengthy construction times and heavy resource allocations associated with massive deep-level shelters, while providing some type of protection for everyone in both urban and rural areas. It does not, however, exclude the possibility that some good shelter is being prepared in cities to protect personnel of important factories, communications, or control groups.

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Since the 27 August evacuation by air of 15 "technicians and advisers" from the Plaine des Jarres, there have been no further withdrawals of North Vietnamese personnel through the designated checkpoint there or the one at Nhommarath. Communist propaganda has been claiming that most--if not all--of the North Vietnamese in Laos have already departed. In any additional "checkpoint" withdrawals, the numbers involved probably will be small and amount to no more than a token gesture toward fulfillment of the Geneva accords.

There are increasing indications that significant numbers of North Vietnamese were covertly withdrawn from Laos during the latter part of August. There is likewise considerable evidence that substantial numbers remain, either in separate units or as part of Pathet Lao units.

North Vietnamese forces are continuing to aid the Pathet Lao in their efforts to consolidate control over areas surrounding the provincial capitals.

Meanwhile the three-faction coalition government, in which each group possesses a veto, has made little progress toward civil and military integration or toward demobilization of surplus forces. A committee established in early July to draw up a cease-fire agreement has been hamstrung by factional differences. Two commissions formed at the same time for the study of military and administrative unification procedures have also failed to reach any conclusions yet.

However, a turnover of ministerial functions at the national level by the former Boun Oum cabinet officials to ministers of the coalition regime occurred on 27 August. Some progress also appears to have been made regarding membership in international organizations, reestablishment of internal communications, appointment of representatives abroad, and preliminary planning for foreign aid programs.

The coalition government on 4 September approved the establishment of diplomatic relations with a number of Communist countries including China, East Germany, and North Vietnam. While this action is consonant with Souvanna's neutralist foreign policy, it represents a substantial boost to the Communists in the continuing "divided nations" controversy. The full diplomatic recognition planned for East Germany would make Laos the first non-Communist country so to honor the Ulbricht regime.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****ALGERIA**

The re-establishment of the political bureau in Algiers is a significant victory for Ben Bella. Since Wilaya IV troops no longer control the city, the political bureau should be able to operate more effectively than before, and if Ben Bella quickly restores order he will have the solid support of most of the population. He may have to make further compromises with powerful opponents such as Belkacem Krim and Mohamed Boudiaf, however, and the basic question of the political role of the army remains unresolved.

The US Consulate General in Algiers feels that Ben Bella's victory was due to the overwhelming strength of the military forces at his disposal and their evident willingness to advance into Wilaya IV territory, to the firm control his followers had attained in the Algiers casbah, and to Wilaya III's desire to avoid civil war. All leaders concerned probably also realized that public opinion would not support civil war or a prolonged crisis with various factions attempting to outface each other.

So far neither Krim nor Boudiaf has reaffirmed support for the political bureau, and Wilaya III--the Kabylie region east of Algiers--and the troops

there are still firmly under the control of these two men. This area reportedly has the most effective administration in the country, and there is excellent cooperation between Krim and the military commander. Even before independence there was a strong desire among the Berber population of the Kabylie for a large degree of local autonomy. Ben Bella is unlikely to attempt military operations in Wilaya III territory, a rugged area which the French Army never completely subdued.

Ben Bella and the political bureau are obviously indebted to

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the "regular" Algerian Army--now called the National Popular Army (ANP)--and Chief of Staff Boumedienne for their reinstallation in Algiers. The US Consulate General, however, feels that popular revulsion over exactions by undisciplined army elements should strengthen the hand of the political bureau in its plan to reorganize the army.

If Ben Bella is able to consolidate his position and bring order to Algeria, many

of the Europeans still undecided about returning to Algeria may soon be induced to go back. In the Oran area, which has remained firmly under Ben Bella's control since independence, the US consul reports that planes coming from France are full while departing aircraft are half empty. There is no evidence yet, however, that Paris has succeeded in its efforts to have teachers and administrative officials return to Algeria despite the offer of higher salaries. Partly to encourage returnees, the government will probably accelerate implementation of the short term financial and technical agreements signed by France and Provisional Executive President Fares on 28 August.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****CONGO**

Tshombé on 3 September stated that the UN-sponsored plan for Congo unification "constituted the basis of an acceptable settlement." His language made it clear that he envisages further negotiations, however, and suggests that he will seek a transition period for the specific steps toward Katanga's reintegration. While acknowledging that Katanga's desire for a general reconstruction of the Congo required that his government make a "constructive response," Tshombé indicated that his statement was being made under US and UN pressure, and charged that the UN plan constituted intervention in "exclusively internal Congo problems."

Tshombé specifically accepted provisions for a 50-50 sharing of Katangan mining revenues with the central government, and for creating a military commission to integrate Katangan forces with those of the Congo National Army (ANC). He again emphasized, however, that the "most important objective" was the establishment of a "genuinely federal" constitution, which suggests that he may set this as a prerequisite to taking the other steps. He insisted that Katanga have a voice in drafting a constitution and in financial arrangements, and called upon the Western powers to guarantee that the UN plan would be equitably applied.

Ambassador Gullion regards Tshombé's response as the most forthcoming yet, but notes that he obviously hopes to draw out new negotiations in order to weaken the position of the UN and Congolese Premier Adoula.

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The UN Secretariat in New York is proceeding on the basis that Tshombé has in fact accepted the UN plan and is planning to move ahead on implementation. Chief UN representative Gardiner in Leopoldville said he was going to "grasp the little that is good" and act as if Tshombé meant business. Tshombé's qualified response has been received with suspicion in Leopoldville and, in the light of his past failures in dealing with Tshombé, Adoula can be expected to be extremely cautious.

Other difficulties may slow implementation of the UN plan. Anti-Tshombé sentiment and increasing indiscipline are reported widespread in the Katangan forces as a result of their proposed integration with the ANC. The Katangan government

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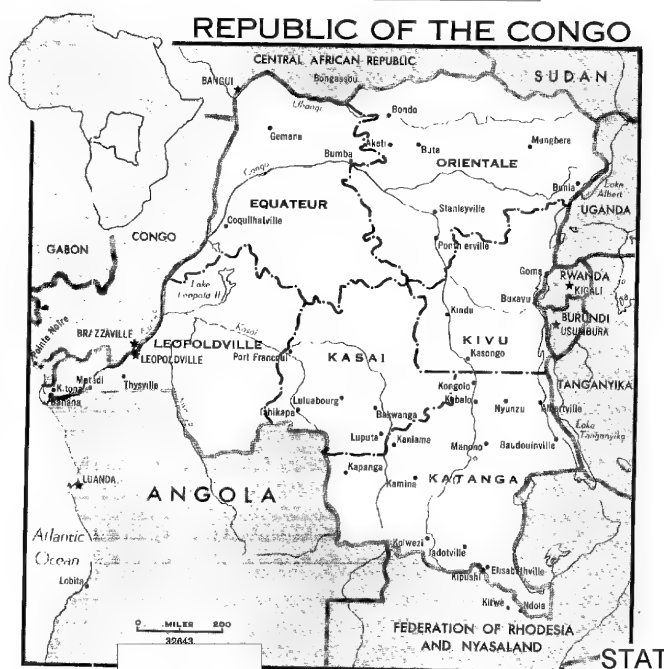
is furious over the incorporation of an ANC battalion into the UN forces in Katanga. Katangan Finance Minister Kibwe told the US, British, and Belgian consuls that Katanga might suspend implementation of the UN plan until some action were taken to withdraw the battalion. During the past week, Katangan forces and officials were harassing UN civilians and troops in and around Elisabethville. Katangan authorities continued to hold up UN supplies coming in through the Rhodesias.

Meanwhile sporadic fighting between Congolese and Katangan forces continues in northern Katanga. There are indications that Tshombé plans to make a major issue of Leopoldville's attempts to establish a separate province there. One of his top unofficial Belgian advisers told US officials on 1 September that Tshombé was not reconciled to a separate northern Katanga province and was considering proposing a referendum.

In Leopoldville, pressure is still mounting for the release of the imprisoned leftist Stanleyville leader, Antoine Gizenga. The embassy believes Adoula is wobbling and that, if the UN plan fails, Gizenga

will re-emerge as a major political figure.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****PORTUGAL'S RELATIONS WITH THE CONGO**

Despite public expressions of optimism over developments in Africa, Portuguese officials are increasingly concerned about Leopoldville's extension of aid to Angolan rebels in the Congo. Lisbon is considering economic sanctions against the Congolese. Military action cannot be ruled out, particularly if the Salazar regime should become convinced of the necessity of a military "victory" to stifle domestic discontent over the mounting costs of the Angola campaign.

The Portuguese Government announced on 3 September that it will lodge a "vehement protest" with Leopoldville over Congolese Foreign Minister Bomboko's radio address of 29 August pledging continued aid to the Angolan rebels based at Thysville in the Congo. Lisbon accused the Congolese of violating the UN charter through aggression against another country and claimed the right of self-defense, in conformity with Article 51, to "neutralize" the source of this aggression at Thysville.

The American Embassy in Lisbon believes the Portuguese announcement contains a veiled threat to break relations between the two countries and even to attack the Thysville base. The embassy emphasizes the Portuguese are in no mood to permit a build-up there against Angola and cites an editorial of 2 September by the Salazar regime's leading commentator on foreign affairs which hinted at Portuguese military action against Thysville.

Increased Portuguese defense spending, due mainly to the campaign in Angola, may absorb more than half of all

government outlays by the end of this year. Two months ago the 1962 defense budget was 35 percent higher than that for 1961, and it is likely to be upped again by a substantial amount before the year is out. Portugal now has over 37,000 troops in Angola, a 12-percent increase since January 1962. While the rainy season which begins in October would limit extensive military operations, Lisbon might afterward resort to force if economic sanctions fail.

On 29 August Portuguese Foreign Minister Franco Nogueira had told Ambassador Elbrick that the issue of the Thysville base was a most serious matter and that Portugal would go to extremes to settle it satisfactorily. He stated that unless the base were dismantled, his government would consider aiding Katanga and making serious trouble in general for Leopoldville, including cutting off Congolese imports of foodstuffs from Angola, halting maritime traffic at the mouth of the Congo river by refraining from the necessary dredging of Portuguese waters, and even resorting to military measures against the Congo.

Portuguese armed action against the Congo would result in an immediate demand by Afro-Asians for the imposition of sanctions against Lisbon by the UN, and would also inflame debate on other issues concerning Portuguese territories. These issues are in any event scheduled to come up at the General Assembly session opening on 18 September.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****DEVELOPMENTS IN DENMARK**

Jens Otto Krag on 3 September replaced the ailing Viggo Kampmann as Denmark's prime minister. Krag was foreign minister under Kampmann and has been regarded as his political protégé. Per Haekkerup, who has been parliamentary spokesman for the Social Democratic party and head of Denmark's delegation to the United Nations, succeeded Krag in the Foreign Ministry.

Although Krag will make no marked changes in foreign and defense policies, he faces increasing difficulties on the domestic front. Factionalism within the Social Democratic party is growing, and the popularity of its coalition government with the Radical Liberals has declined. Such impending matters as the farm price problem and national labor negotiations will place further strains on the government and may lead to a reorganization.

Krag, like Haekkerup, is identified with the Social Democrats' right wing. This has not endeared Krag to the trade union faction, which probably would have preferred a labor man as Kampmann's replacement, rather than a party leader described by his critics as a "middle class intellectual." Nevertheless, labor probably is confident that as the party's most influential element it can check any further drift toward the right.

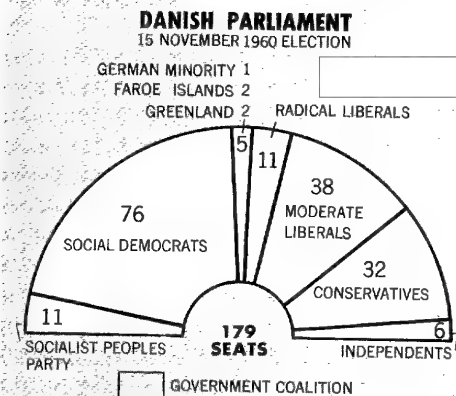
Krag's most serious problem is probably the public's growing dissatisfaction with

the coalition--as brought out in recent public opinion polls. Much of this dissatisfaction seems to stem from the recent enactment of a 9-percent turnover tax, but there is also some evidence that the Social Democratic rank and file is restive at cooperating with the middle class Radical Liberals. Moreover inertia within the party--which has been in office since 1953--confronts Krag, as its leader, with the necessity of creating the image of a more dynamic party.

Krag also has the problem of placating rival party factions. The right wing favors moving closer to the Radical Liberals, while the left wing advocates cooperation with the neo-Communist Socialist People's party (SPP) in order to avoid losing votes to it in the next election. Initially at least, Krag may choose to continue Kampmann's policy of publicly denouncing the SPP as Communist-controlled while not rejecting its support on parliamentary questions. He is likely to avoid entering into overt cooperation with the SPP, as this would give the Radical Liberals a popular issue on which to withdraw from the government.

Although the boom which has characterized the Danish economy for the past several years has leveled off, the major domestic economic problem is that of maintaining price and wage stability in the face of pressure from both farmers and labor for higher earnings. The government is deeply divided on the question of increasing farm prices, with the Radical Liberals apparently committed to an increase and labor opposed. Union leaders STAT have already made demands which indicate that negotiations for the renewal of the contracts which expire in late winter will be the most difficult in many years.

The controversy in Denmark over the nature of ties with the Common Market eased somewhat following the government's decision to apply for membership, but this is conditioned on Britain's entry.

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COMMONWEALTH PRIME MINISTERS CONFERENCE**

The Commonwealth prime ministers' conference convening in London on 10 September will be the largest to date. Fifteen full members will be represented, and there will be observers from the Rhodesian Federation and other British territories well advanced toward independence. The chief executives of Ghana, Ceylon, Malaya, and Tanganyika are sending delegates rather than attending in person as is customary. There will be the usual review of the international situation, and discussions of the future of the Commonwealth and various bilateral problems.

The conference will be dominated, however, by the question of Britain's membership in the European Common Market (EEC). Although the meeting will be purely consultative, the attitudes expressed on this issue will have an important impact on opinion in the United Kingdom. The principal argument of those opposed to UK membership in the EEC is the need to protect Commonwealth interests.

With this situation in mind, Macmillan had hoped to be able to present his Commonwealth colleagues with a substantially completed agreement, and subsequently to go before the Conservative party conference and parliament in the fall armed with a statement that the Commonwealth had been consulted and fully "understood" Britain's position. This schedule was disrupted by the suspension of the UK-EEC negotiations in Brussels without full agreement on 5 August. Up to that point, however, the other Commonwealth governments had gained a general understanding of the arrangements the EEC would require for British membership, and an approximate idea of the kinds of "safeguards" for their exports that are likely to emerge from the negotiations when they are resumed in October.

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Specifically, Ceylon, India, and Pakistan evidently are partially reassured by the projected tariff arrangements affecting their major exports of tea and manufactured items. They can probably be persuaded

to accept Britain's entry on present terms. Ghana and Tanganyika are opposed to association with the "neocolonialist" Common Market on any terms. Nigeria's moderate leaders, on the other hand, have shown understanding of the economic arguments in favor of association, which they have indicated Nigeria may eventually seek. Their efforts at London will probably be directed toward impressing the British with the need to obtain more favorable terms of association for the African Commonwealth countries. Sierra Leone generally follows Nigeria's lead.

The Caribbean territories will benefit from the plan to accord them associated status, involving tariff-free access. However, they can be expected to apply pressure in the London talks on the question of economic development assistance, which has not been settled in the UK-EEC negotiations.

As for Cyprus, Britain considers that independent association with the EEC--on the Greek analogy--is probably the best solution. The Cypriot Government has not yet taken a position on the question.

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CURRENT INTELLIGENCE WEEKLY SUMMARY **PRE-ELECTORAL TENSIONS IN NICARAGUA**

Nicaragua's preparations for presidential and congressional elections next February are already increasing tension between traditional political rivals and encouraging Communist-led groups to speed up plans for violence against the Somoza regime.

Both the ruling National Liberal party (PLN) and its principal opposition, the Traditional Conservative party (PCT), are pro-US. There is little difference in their campaign platforms. Each has a moderate conservative and moderate liberal wing. The rivalry between them, however, is bitter and rooted in a history of civil wars dating from the mid-nineteenth century.

President Luis Somoza has promised that members of his family will not run for political office, and that the elections will be free and honest. The PCT, however, doubts the President's ability to control his ambitious brother, Major General Anastasio Somoza, or to ensure honest balloting.

Former Foreign Minister Rene Schick Guiterrez was nominated as the PLN presidential candidate earlier this year with strong support from President Somoza. Non-partisan observers do not regard Schick as a puppet of the Somoza family. PCT leaders, however, regard Schick's recent statement that he intends to keep General Somoza

as director of the National Guard --the country's sole military force--as evidence that the Somozas will remain as the power behind any PLN regime. The General's ties with the 4,900-man National Guard are strong, and his desire to remain in command both to protect his family interests and to continue his military career are well known. The opposition's suspicions are deepened by the wide belief that General Somoza has presidential ambitions for 1969.

The Somoza brothers--sons of the dictator who ruled Nicaragua from 1937 until his assassination in 1956--nevertheless appear determined to continue the transition to democracy which they initiated. The PCT has asked, as proof of their sincerity and as a condition for PCT participation in the elections, that the balloting be supervised by the Organization of American States (OAS). The President has agreed only to permit OAS observers.

The refusal of Fernando Aguero Rocha, the PCT's probable choice for its presidential candidate, to withdraw the demand for OAS supervision suggests that PCT leaders want an excuse to boycott the election if they decide they cannot win. In that event the PCT could claim that fraud was planned and that violence is the only way to end the "Somoza dynasty."

Vituperative exchanges by political opponents and their newspapers have promoted mutual distrust. There have been several violent clashes in recent weeks between partisans of the opposition and the government. The National Guard thus far has been able to avoid involvement, but as the campaign warms up, opposition extremists will probably try to provoke an incident to incite public indignation against the PLN and the Somoza family.

Meanwhile, small bands of Communist-led guerrillas may have already crossed from Costa Rica and Honduras into remote areas of Nicaragua. The hard core of a group that has been gathering in Honduras under Carlos Fonseca Amador is composed of men recently trained in Cuba.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BRAZILIANS EXPECT MID-SEPTEMBER CRISIS**

The expectation is widespread in Brazil that a new political crisis may break in mid-September.

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Finance Minister Moreira Salles resigned on 3 September. He protested that government legislation restricting profit remittances by foreign firms was unconstitutional and would inhibit future investments. He also attributed the fall in the value of the cruzeiro to psychological causes. The US Embassy believes the resignation was due to Moreira's growing divergence from the policies of President Goulart and the rest of the cabinet, to the growing political turbulence, and to the finance minister's estimate of the difficulties in trying to combat Brazil's increasingly serious internal and external financial situation.

Goulart, bent on restoring a strong presidency, contends that congressional leaders have agreed to a compromise formula under which Congress will re-assemble in Brasilia between 10 and 15 September and take action to facilitate a plebiscite on whether the country should return from parliamentary government to the presidential system. There is some question whether a quorum can be obtained in Brasilia during the campaigning for elections on 7 October.

Leading anti-Communist Carlos Lacerda, publisher and state governor, doubts in any event that Congress will take the action Goulart wants.

If Goulart does not have his way with Congress, he will at a minimum probably compound the existing tensions by stimulating labor disorders. His brother-in-law, pro-Communist Governor Leonel Brizola, has called on students, workers, and the armed forces to "force" Congress to set the plebiscite for 7 October, the date of the congressional elections. Brizola violently attacked Lacerda and demanded the recall of the US and Brazilian ambassadors and the closing of the US Embassy.

Aside from reports that some pro-Communist candidates are not campaigning very hard, there are no other indications that Goulart may plan to cancel the election. Although the new Congress may be harder for him to control than the present one, his Brazilian Labor party stands to make some gains even though it is given no chance of winning a majority. The President has, however, given indications that he would like to close down the present Congress before the end of its tenure.

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Since the last working session of Congress in mid-August, Goulart has reinforced his personal control in key areas of the armed forces, including the powerful Communist-influenced sergeants' organization which he recently addressed. The US Embassy comments that the designation on 31 August of a leftist ultranationalist commander of the important Second Army is widely regarded as presidential pressure on Congress to comply with his demands.

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WEEKLY REVIEW

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SPECIAL ARTICLES****CHINESE REPRESENTATION IN THE UNITED NATIONS**

Nationalist China is making a determined effort to maintain the edge it gained in the UN General Assembly last year when the Soviet proposal to oust Taipei and admit Peiping was decisively defeated. The continuing support of the African states, particularly the Brazzaville group, is essential for Taipei's success at the session opening 18 September.

The USSR is expected to resume its efforts toward Peiping's admission this year. However, the Soviets may concentrate on the tactic of seeking rejection of the Taipei delegation's credentials. This would be a procedural question needing only a majority vote for approval, whereas the ouster of Nationalist China and admission of Peiping would be an "important question" and to pass would require the approval of two thirds of those present and voting.

Background

For ten years before 1961 the General Assembly put off debate of the Chinese representation question. This has been accomplished by a procedural device known as the moratorium--suspending consideration for the current session--which requires only a simple majority vote to pass. In the first five years, more than two thirds of those members present and voting supported the moratorium. In 1956, however, as new members joined the UN, the vote in favor began to decline. Many of the new members, mostly from Asia and Africa, believe strongly in

the universality of the UN and advocate Peiping's admission. The voting margin on the moratorium in 1960 was so slim that in 1961 it was found advisable to abandon the moratorium device and for the first time to deal directly with the substantive question itself.

At the outset of last year's debate the assembly ruled--by a vote of 61 in favor and 34 against--that any proposal to change the representation of China is an "important question." On 15 December the Soviet resolution calling for the removal of the Republic of China and the seating of the Chinese Communists fell 20 votes short of the 56 required for passage. There were 48 members opposed and 20, mostly Africans, abstained. Two members which recognize Communist China--the Netherlands and Norway--abstained, while two which do not--Ethiopia and Sierra Leone--voted in favor.

This Year's Vote

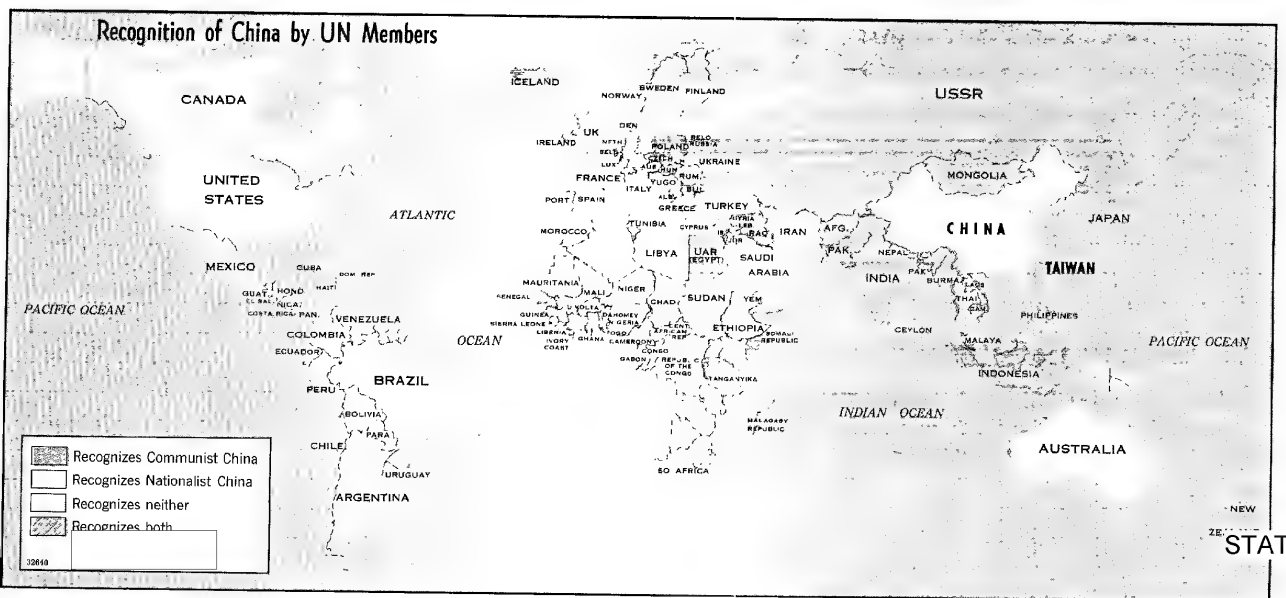
Although the item has not yet been inscribed on this year's agenda, the USSR--despite its differences with Peiping--will raise the issue if no other member does. Before 1960 India obligingly assumed this role, but its border problems with the Chinese have since deterred it from taking the initiative.

When the issue comes up for debate, there may be various proposals designed to appeal

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to the many UN members which want Peiping in the UN but not at the price of Taipei's ouster. Such proposals may include formation of a study committee, or some version of the two-Chinas concept. The key factor in defeating these proposals and in keeping Taipei as the representative of China is the support of the African states. Their support on the credentials question is also vital.

Chinese Ambassador Tsiang told American officials on 2 July that "it goes without saying" that Taipei would "work hard on the Brazzaville states." He added that Taipei had done considerable "missionary work" among the Africans and that he anticipated a "pretty good response" from them. Other estimates conclude that most of the Africans will hold firm on the "important question" ruling and will oppose any proposal

designed to oust Taipei from the UN.

Credentials Question

At the beginning of each session the General Assembly approves a nine-member credentials committee proposed by the president of the assembly. In practice, the make-up of the committee reflects the 55-39 ratio of UN members recognizing Nationalist China or the People's Republic. This committee examines the credentials of all representatives and reports to the assembly. The assembly, by a simple majority vote, passes on the report of the committee.

The USSR--which, like the US, is always a member of the committee--has consistently objected to the Nationalist delegation's credentials. This year it may attempt to force a separate vote on the Chinese credentials.

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Any successful procedural maneuver designed to have the assembly reject--or merely not accept--the credentials of the Nationalist delegation could result in a serious loss of prestige for Taipei. In effect, such rejection--while it would not automatically result in the seating of Peiping--could put Nationalist China in the anomalous position of sitting in the assembly without the right to speak or vote, while still retaining its permanent seat on the Security Council.

Taipei would like to extend the protection of a two-thirds majority requirement to the credentials forum, but since the assembly is being asked merely to decide whether credentials have been submitted in the proper form, the simple majority rule must prevail. Ambassador Tsiang told American officials on 13 August that Taipei intends to argue that a distinction must be made between the "right of a government to representation" and the merely procedural question of accreditation of individual representatives.

Study Committee

Many UN members favor a study committee under the assembly's jurisdiction to look into the "whole question of Chinese UN representation." Belgium, Japan, and Sweden have in the past advocated such a committee in the hope that a study of the problem would result in some accommodation acceptable

to both Peiping and Taipei.

Taipei, however, remains adamantly opposed, primarily because the committee would probably approach its work with a two-Chinas solution in mind. Peiping is also vehemently against a two-Chinas solution.

Outlook

While Taipei will retain its UN seat this year, its position over the long run will become more tenuous. There is a strong undercurrent of feeling among UN members that Peiping must inevitably be admitted to the UN. Added to this is a belief in the universality of UN membership.

Advocates of Peiping's membership are strongly influenced by the desire to bind the Chinese Communists to the principles of the UN Charter and to other international agreements. They desire particularly that Communist China be a party to any agreement to ban nuclear tests and to other forms of disarmament. They point out that since any such agreements will be accepted by the UN as a whole, Peiping, as a member, would automatically be included. These beliefs will be strengthened as Peiping comes closer to developing its own nuclear power.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****INDIA'S ECONOMY UNDER THE THIRD FIVE-YEAR PLAN**

Fulfillment of India's massive Third Five-Year Plan (1961-66) is behind schedule, and there is increasing evidence that the plan's targets will not be met. The pace established during the first 18 months of the plan period has been impressive even by Western standards, but is too slow to attain the goals set for the first and second years.

Because of the plan's complexity, deficiencies in one sector are causing parallel delays in others. Shortfalls early in the plan will be compounded later on, particularly in basic industries. Many of India's planners already accept some trimming as inevitable but prefer to wait until the plan has run at least two years.

Targets

The Third Five-Year Plan is a collection of the development plans prepared by the Indian states and the central government. It envisages the outlay of nearly \$25 billion for a wide variety of industrial, agricultural, and social welfare schemes during the five-year period ending in March 1966. More than three quarters of this cost will be met from domestic sources of revenue; the remainder is dependent on foreign assistance. The plan calls for national income to increase 25-30 percent, food production 30-33 percent, primary school attendance 50 percent, and industrial production more than 50 percent.

Investment under the third plan is more than double that under its two predecessors. It has been described as both "ambitious" and "minimal"; its goals are high but seem to

Indians barely to meet the pressing requirements for economic and social progress. Its broad aim, in the words of the planners, is to secure "a marked advance toward self-sustaining growth"--that point of "takeoff" when savings and investment reach a point high enough to ensure "a high growth of income on a continuing basis." Just to keep abreast of India's normal population increase would demand substantial economic growth. While progress to date more than meets this requirement, the dramatic growth necessary for "takeoff" in this plan period is thus far lacking.

The sheer massiveness of the Third Plan has made more evident many strains which had begun to afflict the economy during the later years of the Second Plan. India's basic economic support structure has groaned under the weight of new burdens; pressure has been especially heavy on transport and power. The national income rose by 3.2 percent during 1961-62--against a goal of 5-6 percent per annum--and the income statistics reflect general lagging among the various production indices.

Agriculture

The relatively poor statistical performance in 1961-62 is largely due to agriculture, which employs--and underemploys--four out of every five Indians and accounts for more than half the national income. Paradoxically, agriculture in general--and food-grain production in particular--had a record year. Food-grain production, including the wheat and rice which are staples in vegetarian India, rose to nearly 82 million tons, more than 1 million tons over

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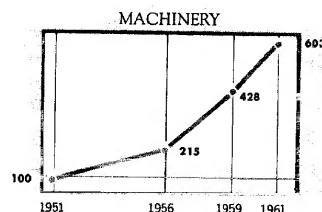
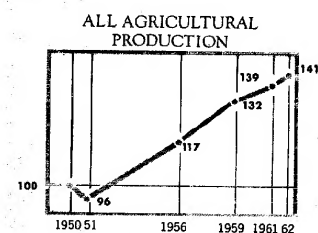
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the previous year's bumper crop. This was primarily the result of a 7.4-percent increase in wheat production. Rice production, however, which accounts for 40 percent of all food grains grown, remained at about the same level as the previous year's unusually good crop. Thus while performance was good in absolute terms, the rise in food-grain production was less than half the targeted increase of 5 percent.

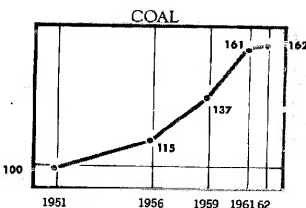
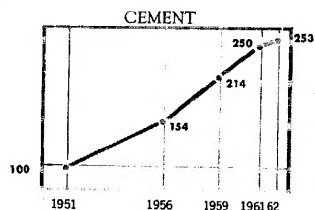
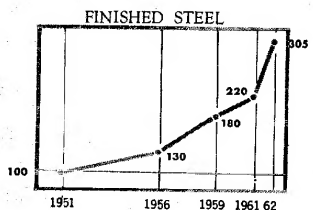
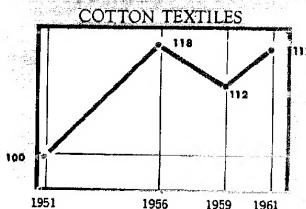
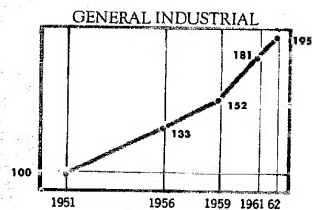
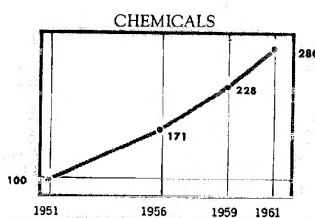
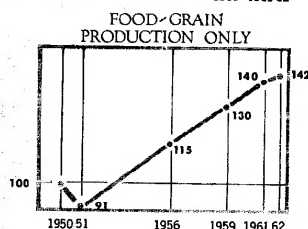
Production of other crops declined or failed to increase--in certain cases, such as cotton, despite attempts to expand acre-

age and yields. In other cases, such as sugar, the lack of growth stemmed from government efforts to restrict output.

The food picture continued good, nevertheless, largely through the use of government reserve stocks and imports; government stocks, in fact, continued to increase as a result of imports of surplus American commodities under Public Law 480. However, food prices, which the government had been at pains to keep stable before the elections last February, have begun to rise slightly in anticipation of a less-than-bumper harvest this fall.



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Agriculture's failure to meet its share of the plan's targets has been ascribed primarily to the hazards of monsoon weather. The Food Ministry believes, however, that the 84-million-ton food-grain target for 1961-62 could have been met had there not been lags in the construction of irrigation works and an inadequate supply of chemical fertilizers.

Industry

The industrial sector, while registering an overall 8-percent rise in production, failed to meet its targets for the year not only in fertilizers, but also in steel, cement, and electric power.

All industries suffered from the railways' inability to expand service enough to support new construction and increased production. During 1961 some 20 million tons of freight--11 percent of the total offered--was rejected by the carriers. Since India's 35,000-mile railway system handles 80 percent of the country's freight, and because coal, the country's major source of power, is one of the railways' primary cargoes, the impact was nationwide. Some new steel-and cement-making capacity lay idle, and thermal power plants worked below capacity. The shortage of power and construction materials hampered development and performance in many other industries. This June the government had to restrict licenses for new industrial undertakings requiring more than 2,000 kilowatts to those projects for which power had been specifically allocated under the Third Plan.

The steady decline in foreign exchange reserves was another factor which hurt industrial development. Shortfalls in production of steel, cement, and fertilizers have increased pressures for imports to meet domestic demands. The foreign exchange holdings of the Reserve Bank of India now are less than \$200 million. In an effort to slow the drain, New Delhi has sharply curtailed imports, thereby imposing a brake on a wide variety of maintenance and development operations. Efforts to promote exports have not brought dramatic results.

Delays in allocation of foreign aid constitute another problem. Soviet disbursement, particularly in the electric power industry, has been slow--only about \$60 million thus far under credits of about \$670 million pledged for the Third Plan. The Western-sponsored World Bank consortium--the "aid India club"--has also been slow to firm up its offers, and this has contributed to the lag in contract-letting and project starts. More than \$2.3 billion in aid remains to be raised for the latter years of the plan.

Still another factor affecting achievement of Third Plan targets is that many industries are still working to fulfill Second Plan goals. The steel industry, for example, failed to attain its Second Plan goal of creating a capacity for producing 4.5 million tons of finished steel annually. Production in 1960-61, the last year of the Second Plan, was no more than 2.2 million tons, however, and only 3.15 million tons was produced in 1961-62. This year's total is expected to be slightly more

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than four million tons. This means that the Second Plan production goal is only now being achieved. At the moment, the only publicly owned steel plant operating roughly at capacity is the Soviet-built plant at Bhilai-- also the only plant on which Third Plan expansion has begun. At this pace, the steel industry's Third Plan goal of 7.5 million tons annually appears unattainable even in terms of installed capacity, much less in terms of production.

Remedies

New Delhi's remedies to get the plan rolling have proved to have mixed effects. Reallocations of funds merely rob some areas of the economy in order to meet demands elsewhere. Restrictions on imports and industrial licenses save foreign exchange and power but have a dampening effect in other areas, particularly in terms of creating jobs to alleviate India's crushing and growing unemployment problem. The increasing use of diesel locomotives improves the railways' hauling capabilities and improves the turnaround rate of equipment, but increases the requirements for imported petroleum as opposed to cheap, domestic coal.

Administrative remedies offer some prospect of relief. In re-forming his cabinet after the February election, Nehru seems to have given heavy weight to economic considerations. He shifted his lackluster railways minister to another job, bringing into the post the former minister of steel, mines, and fuels. While no dynamo, the new minister has a broad knowledge of the major industries hurt by railway inadequacies.

A new ministry was created to supervise steel and heavy

industry. The post was assigned to a young man fresh from a highly successful term as finance minister in the state of Madras. His performance to date suggests he is the right man for the job, combining vigor and understanding with impatience with red tape. He has introduced administrative reforms aimed at reducing ministerial interference in the government's steel plants. He has made the plant managers responsible for performance and has given them the authority they require.

A third step was the appointment of T. T. Krishnamachari to the cabinet as minister without portfolio. A highly respected former minister of finance, he has broad planning responsibilities and is working to improve coordination and reduce bottlenecks in the critical areas of steel, coal, transport, and power. An energetic and highly skilled businessman-turned-politician, Krishnamachari's role will grow in importance.

Other ministerial shifts are in progress or in the offing. These involve the portfolios of commerce and industry and of irrigation and power. More drastic changes of personnel and procedure within the planning commission itself have been called for by several critics.

It is unlikely, however, that the changes thus far suggested or carried out can overcome the lag that has already developed. Basic decisions involving curtailment of the Third Plan will have to be made when a general government review of progress is made next year.

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